

# 2.7 Price Elasticity of Demand (PED)

## Question Paper

Course	CIE IGCSE Economics
Section	2. The Allocation of Resources
Topic	2.7 Price Elasticity of Demand (PED)
Difficulty	Medium

**Time allowed:** 70  
**Score:** /58  
**Percentage:** /100

### **Question 1**

Italy is home to the world's oldest bank and some of the world's oldest car producers. Internationally, both industries are facing a number of challenges. The wages of bank workers and car workers are increasing. Demand for bank loans and for cars is changing, in part, due to changes in population size. It is predicted that the price elasticity of demand (PED) for cars will also change in the future.

**Discuss** whether or not demand for cars will become more price-elastic in the future.

**[8 marks]**

### **Question 2**

The markets for cars and tyres are closely related. The five largest tyre firms used to make 66% of all tyres. The entry of more than 250 Chinese firms has reduced the global market share of the largest five firms to less than 50%. This also changed the price elasticity of demand (PED) for individual firms' tyres. Some of these firms are state-owned enterprises and some are in the private sector.

**Explain** what effect more firms producing tyres would have on the PED of individual firms' tyres

**[4 marks]**

### **Question 3**

The price elasticity of demand (PED) for sugar in most countries is less than 1. In 2017, the price of sugar fell. However, the price of specialised, higher quality sugar grown in countries such as Mauritius fell by less than the average global price. Efficient producers, such as some farmers in Brazil that have a low fixed cost of production, were also less affected by the fall in price.

**State** the formula used to calculate PED

**[2 marks]**

### **Question 4**

In 2017, the UK included bicycle helmets for the first time in its calculation of the consumer prices index (CPI). Many bicycle retailers now provide their customers with a choice of bicycle helmets. Estimates show that 25 million bicycle helmets are sold globally per year and the number sold is on a steady upward trend.

**Discuss** whether or not increasing sales of a product will be beneficial to a firm.

**[8 marks]**

**Question 5**

**Analyse**, using Fig. 1.1, the relationship between copper output and revenue from the sale of copper.

Refer to the [source material](#) in your answers.

**[5 marks]**

### **Question 6**

The food items people buy can be influenced by taxes, subsidies and health reports. A report published in 2017 outlined the health benefits of eating tomatoes including improved vision and reduced risk of heart disease. Egypt is a major producer of tomatoes and it also produces a large amount of cement. Cement is a product with price-inelastic demand. Egyptian cement producers have introduced more capital-intensive production methods.

**Explain two** reasons why demand for a product may be price-inelastic.

**[4 marks]**

### **Question 7**

A number of book publishers operate in Pakistan. These include multinational companies (MNCs). They employ a range of specialist workers. A number of these specialists estimate the price elasticity of demand (PED) for their firms' books. There is a debate about whether some books should be subsidised by the government.

**Analyse** how a change in the PED for its products may benefit a firm.

**[6 marks]**

### **Question 8**

**Explain**, using information from the extract, whether demand for Indian tractors was price-elastic or price-inelastic in 2015.

Refer to the [source material](#) in your answers.

**[2 marks]**

### **Question 9**

Droughts in the Pacific Coast region of the US and regulations, in the form of limits on the amount of salmon that can be caught in the wild, have reduced the supply of wild salmon. These limits were imposed to avoid market failure in the salmon market. However, the effect of this on the revenue of salmon producers is uncertain. In addition, producers of farmed salmon in the US states of Washington and Alaska have received subsidies from the US government.

**Analyse** how information on changes in a firm's revenue can be obtained from price elasticity of demand calculations.

**[6 marks]**

### Question 10

In the UK, bus journeys outside London have fallen by nearly 40% since 1980. This fall in demand has been largely due to a rise in bus fares, a rise in income and changes in the price and quality of substitutes. On some routes there are monopolies operating and this lack of competition can push up the price.

**Analyse** how price elasticity of demand for a product influences the revenue a firm receives.

[6 marks]

### Question 11

**Calculate**, using the information in the extract, the price elasticity of demand for water.

Refer to the [source material](#) in your answers.

[2 marks]

### Question 12

**Discuss** whether or not private firms supplying water should increase their prices.

Refer to the [source material](#) in your answers.

[5 marks]

